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UNCLAS SECTION 01 OF 08 TOKYO 002251

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PARIS PLEASE PASS TO USOEC
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SENSITIVE

E.O. 12958: N/A

TAGS: ETRD ECON JA ZO EAGR

SUBJECT: The Japan Economic Scope - May 18, 2007

Sensitive but unclassified. Please protect accordingly.

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¶13. (SBU) LDP and DPJ Staff Members Discuss Upper House election

A Democratic Party of Japan (DPJ) Policy Research Council staff member revealed to the Embassy that the party was having difficulty finding a strong argument against the Liberal Democratic Party (LDP) in the Upper House election, as the debate on social disparity is losing its initial steam. He noted the defeat in the Tokyo gubernatorial race in April had been devastating.

Although it depends on party leader Ichiro Ozawa, who is known to

take a top-down approach, the staff member revealed that pensions and agriculture may be raised and environmental issues could also be a future topic although probably not this election.

The DPJ staff member added that the party, in an effort to collect votes from Japan Agricultural Cooperatives (JA) members, has been sending questionnaires to local JAs, traditionally supporters for the ruling LDP, in hopes of attracting their attention.

In a separate meeting, an LDP staff member admitted he had detected some change in the relationship between Upper House candidates and the interest groups that traditionally support them. For example, JA has ceased to support Keishiro Fukushima, a former Agriculture Ministry official and former Parliamentary Secretary for the Foreign Ministry, because he at times does not

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represent the organization's views. JA has now decided to back one of its own, former JA executive director Toshio Yamada, as its LDP candidate.

The staff member also indicated that Keizo Takemi, who used to enjoy strong support from the Japan Medical Association, seems to have had difficulty securing its support this time. (ECON: Ryoko Nakano)

¶4. (SBU) Keidanren Joins G-8 Business Declaration

The Japan Business Federation (Keidanren) joined other business groups from G-8 countries in calling on their governments to push for a successful conclusion to the Doha Trade Round.

Noting that Doha talks have "dragged on for five years without

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any tangible results," the joint declaration calls on G-8 governments to break the impasse, particularly over agricultural trade, and make a successful conclusion of the round a "matter of urgency and top priority."

The joint declaration also calls for more coordination on IPR enforcement and facilitation of foreign investment. G-8 governments should avoid what the business groups call "investment protectionism," while at the same time do more on transparency and "predictability" in government investment decisions.

The following organizations signed the document: Confederation of British Industry; Confederation of Italian Industry; Federation of German Industries; Japan Business Federation; French Business Confederation; Russian Union of Industrialists and Entrepreneurs; the Canadian Chamber of Commerce; and the United States Council for International Business.

[Click here to view the joint declaration.](#) (ECON: Nicholas Hill)

¶5. (SBU) KORUS Creates Some Pressure for Japan-U.S. FTA

The immediate economic implications for Japan of the U.S. - Korea Free Trade Agreement (KORUS) could be much smaller than the long-term trade policy implications, according to two economists we have met.

If KORUS leads to sweeping changes in Japan's trade policies, pushing the country to open up more aggressively, a senior economist at Mizuho Bank told us last week, KORUS could prove to be "an historical agreement," not only in terms of its impact on Japan's trade policy, but on its impact on the global trade regime.

He added that Japan needs to reevaluate its stand on a wider East Asia FTA framework and its position on where the United States belongs in the regional architecture. Clearly KORUS has served

to raise the profile of Japan's FTA policies.

The economist noted that South Korea continued to hold Japan and China at arms' length while it pursued a deal with the United States and now is putting its sights on a deal with the European Union.

An economics professor from Tokyo University echoed these views. He told us separately on May 17 that KORUS will not have a substantial direct economic impact on Japanese business because tariff rates in United States are already very low.

He said he has been advising the Trade Ministry (METI), which was taking a similar position. METI has noted on its website that the economic implications of a deal between Korea and the EU would be far greater for Japan than KORUS because tariff rates in Europe at present are significantly higher than in the United States. (Click here to read in Japanese.)

(ECON: Nicholas Hill/Ryoko Nakano)

16. (SBU) FTA/EPA Debate Continues in Japan

Last week the Foreign Ministry's latest Economic Partnership Agreement roadmap was put on the internet. (Click here to read in Japanese.) For the first time, MOFA refers to a need to consider in the future working on free trade deals with the United States and European Union.

The FTA debate continues to figure prominently in the press. Chief Cabinet Secretary Shiozaki was quoted in the International Herald Tribune: "it is not simply a matter of Japan making an issue just because South Korea did it," he said. "It is important to study this matter with the aim of developing a forward-looking, win-win relationship.

His comments came after Japanese newspapers conveyed the impression of Japan as an FTA laggard. "FTA, Japan is Left Behind," read one headline in Nikkei. "U.S. Japan FTA a Topic - Government to Revamp Trade Policies," the Yomiuri wrote. (ECON: Nicholas Hill/Ryoko Nakano)

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17. (U) LDP Ag Caucus: PM Advisory Subcommittee Shoots Japan in the Back

We have seen mixed reactions to a report of the Subcommittee for the Council on Economic and Fiscal Policy (CEFP) since its release last week. The advisory body calls for the government to accelerate FTA negotiations and agriculture reform. (See last week's Scope for details.)

Japan's Mainichi said the report's proposals were "innovative." LDP Policy Research Council Chair and former Trade Minister, Shoichi Nakagawa, echoed Agriculture Minister Matsuoka's views that the proposals were detrimental to Japan in its ongoing trade talks, akin to "being shot in the back when the WTO talks are at a sensitive stage." Nakagawa was likely alluding to the Subcommittee's call for Japan to slash its "excessive" tariff rates.

According to press reports, during a May 15 meeting of the LDP agriculture caucus, some members criticized the CEF report saying it needed "adjustments." They do not want to see some of the report's proposals incorporated into the Government's economic and fiscal guidelines, which are due out next month. The ruling party's agriculture caucus is particularly unhappy about calls for tariff reductions and reforms to the gate price system for pork. (ECON: Ryoko Nakano)

18. (SBU) Beef: the Road Map Ahead

According to Japanese press reports, Agriculture Minister

Matsuoka was "circumspect" when pressed by Agriculture Secretary Johanns to review Japan's age limit on U.S. beef imports. The two met in Paris where the OIE this week will pronounce beef in the United States to be in a "controlled risk" -- or in effect, safe -- category, no longer necessitating special restrictions on trade.

In Tokyo, Deputy Assistant U.S. Trade Representative Cathy Enright and Embassy officials met with Health and Agriculture Ministry officials to discuss the way forward after the new OIE risk classification for the United States is announced. The two sides are set to begin a dialogue in coming weeks and the Japanese officials indicated they plan to review very carefully the data supporting the OIE decision. For more details on the meeting, please see Tokyo 2193. (ECON: Nicholas Hill)

19. (SBU) GOJ Unhappy with U.S. National Trade Estimate Report

The Japanese government delivered its reply this week to the U.S. 2007 National Trade Estimate Report, which USTR issued in April. In the reply, which is on the Foreign Ministry website, the GOJ continues to be unhappy about the criticisms leveled at it across a range of sectors, citing "inappropriate or inaccurate descriptions..."

Written in unusually unvarnished prose, the 11-page report rejects point-by-point the concerns raised in the NTE, stating that some statements in the NTE do not "reflect the facts" The GOJ document specifically states that, where concerns raised in the NTE are not addressed, this does not imply that the GOJ shares an "understanding" with the U.S. government on them. According to separate sources at MOFA, the GOJ is considering not replying to the NTE Report in the future, although no final decision on that is expected anytime soon. Click here to see MOFA's reply. (ECON: Nicholas Hill)

110. (SBU) JFTC Chairman to Be Reappointed

According to press reports, Kasuhiko Takeshima will be reappointed as chairman of the Japan Fair Trade Commission (JFTC), once the government has obtained agreement from the Diet for the move.

Takeshima's five-year term expires in September, and any successor would have needed approval from the Diet before the regular session closes in June. Takeshima, age 64, entered the Ministry of Finance in 1965. After having served in such posts

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as director-general of the National Tax Agency, director of the Cabinet Councillors' Office on Internal Affairs, and assistant deputy chief cabinet secretary, he was named head of the JFTC in July 2002.

During Takeshima's tenure, the JFTC, characterized in the past as a "watchdog that never barked," has become a substantially more robust and aggressive competition regulator, actively investigating and prosecuting a series of high-profile bid-rigging cases. Most significantly, Takeshima successfully advocated for the passage in 2005 of a set of amendments to Japan's Antimonopoly Act that strengthened the investigatory and punitive powers of the JFTC. (ECON: Chris Wurzel)

111. (U) Consulate Fukuoka Resumes Visa Services

On May 9, the U.S. Consulate in Fukuoka began accepting non-immigrant visa applications for the first time since 1995. The resumption of visa services in Fukuoka follows the decision last year to begin processing visa applications in Sapporo, and is a part of the USG's efforts to facilitate travel to the U.S. Interviews will be conducted two to four days per month, depending on demand, and post anticipates approximately 3,500 visa applicants annually.

The GOJ frequently urges the USG to expand its visa services in Japan as part of the two countries' regulatory reform dialogue. In addition, local leaders and organizations in the Kyushu-Yamaguchi region have long been interested in reducing the amount of time and expense which the area's applicants have had to incur in order to apply for visas at other Japan posts.

Local media coverage of the resumption of services has been extensive and highly favorable, and post's contacts are extremely pleased that the USG is now offering more convenient services to visa applicants in Kyushu and Western Honshu. (Fukuoka: Jim Crow)

¶12. (SBU) Fidelity to Sell Investment Trusts at Post Offices

Starting on June 11, Fidelity International will begin selling investment trusts at post office branches throughout Japan. Fidelity will thus become the second U.S. company to have such a tie up with Japan Post.

A contact at Fidelity told us that Japan Post had selected their investment trust because of its strong track record and its expected appeal for Japan Post's banking customers, who are known for their conservatism.

The product Fidelity will sell through the post offices will offer both income through distributions and long-term growth. (ECON: Marc Dillard)

¶13. (U) Keidanren Urges Japan to Stop Cutting Aid

On May 15, the Japan Business Federation (Keidanren) urged the Government of Japan to halt a multi-year trend of budget cuts for official development assistance (ODA).

Keidanren argued that ODA should be more effectively used, particularly in the areas of energy security, environmental issues, assistance to African countries, and the promotion of economic partnership agreements.

Noting its high expectations for reform of the Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC), which is slated for 2008, Keidanren expressed regret that untied loans have become the norm in Japanese concessional lending, a development which discourages private sector involvement.

To make ODA programs more effective, Keidanren recommended making the program more commercially attractive so that the private sector's expertise could be brought to bear in developing countries.

Keidanren also urged Japan to shorten the programs' decision

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making process, and to establish US dollar and local currency loans. (ECON: Eriko Marks)

¶14. (SBU) GOJ-Funded Tuna Institute's Kick-Off Conference Packed to the Gills

At a kick-off conference of a GOJ-funded Tuna Institute on April 26, Fisheries Agency of Japan (FAJ) officials and researchers stressed Japan's determination to lead the world in tuna issues from fishing techniques to stock management.

Attended by over 500 people from industry, government, academia and the general public, the conference featured the latest farming R&D projects and detailed the 14-fold increase in global tuna consumption for the past century.

With an annual GOJ budget of 2.6 billion yen (\$21 million) and

about 100 staff members, the Tuna Institute is a "virtual" organization centered in the FAJ-sponsored Fisheries Research Agency in Yokohama but drawing contributions from researchers all over Japan.

Its current focus is Bluefin tuna, the most sought-after and costly tuna species, in the Pacific as the fish spawn and grow up mostly in Japan's EEZ. Research results will be reflected in FAJ's tuna policy and international negotiations. (EST: Keiko Kandachi/Bart Cobbs)

¶15. (SBU) Sarkozy Win Spurs Interest in French Economic and Family Policies

Nicolas Sarkozy's victory over Socialist Segolene Royal in the French presidential election has generated considerable interest in the Japanese press over questions of economic policy.

Interest has run particularly strongly in France's relatively high birth rate, which is at a 30-year high (just exceeding two children per woman) versus Japan's fertility rate, which dropped to 1.26 per woman in 2005.

Newspaper articles and television shows have highlighted aspects of the French system, including support payments scaled to the number of children a family has, flexible childcare arrangements, and France's 35-hour workweek. (ECON: Marc Dillard)

¶16. (U) New Center Established to Boost Service Sector Productivity

On May 10, the Services Industry Productivity Conference (SIPC) was established to raise the productivity of the services sector through collaboration between the government, industry and academia, an idea promoted by METI's Commerce and Information Policy Bureau.

The SIPC is a membership organization, headed by Ushio Inc. Chairman and former CEFP member Jiro Ushio, who is also the Chairman of the Japan Productivity Center for Socio-Economic Development (JPC-SED).

The Conference's administrative work will be handled by the JPC-SED, which is a non-profit and non-governmental organization. The SIPC has 19 "founding promoters," including 14 businessmen and five academics. It expects that service sector companies, industry organizations, services divisions of manufacturing companies, researchers, consultants, and individuals will be the audience for its services. The SIPC plans to hold seminars and issue bulletins and annual reports.

The SIPC plans to focus on four areas: (1) Encouraging services innovation by using scientific and engineered approaches (e.g., collecting and analyzing best practices); (2) Improving the quality of services and fostering human resources (e.g., introducing voluntary certification and third-party certification schemes); (3) Improving infrastructure of the services sector (e.g., improving government statistics on the services sector), and (4) Conducting productivity improvement campaigns (e.g., creating awards and holding symposiums). (FINATT: Maureen Grewel)

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¶17. (SBU) Government Split Over Foreign Trainee Labor

The Ministry of Health, Labor, and Welfare (MHLW), the Ministry of Economy, Trade, and Industry (METI), and the Ministry of Justice (MOJ) have offered competing proposals on revising rules which allow overseas "trainees" to work in Japanese companies for up to three years.

MHLW has formulated plans to protect those workers' rights, while

METI is urging that more trainees be allowed entry into Japan to address labor shortages.

Meanwhile, Minister of Justice Nagase has weighed in with a proposal to develop a short-term working visa.

The current system, under which foreigners train for a year and then work for up to two more years to gain practical experience, is widely seen as a temporary laborer program, and there have been complaints that trainees are treated unfairly.

Under the current legislation, trainees are not recognized legally as workers, thus exempting them from some regulations under Japanese labor law, such as the minimum wage. (ECON: Marc Dillard)

¶18. (SBU) Central Japan's Latin American Workforce Swells

METI estimates that Brazilian and Peruvian nationals now account for up to 3.8% of the total manufacturing workforce in Central Japan.

In a report issued this week, the Chubu (Central Japan) METI Bureau noted that since the wage gap between Japanese and Latin American workers has decreased significantly in recent years, the regional labor shortage in the booming manufacturing sector, rather than cost savings, is driving the increasing demand for foreign labor.

Anecdotally, industry contacts continue to tell us that beyond the South Americans mentioned in the study, area manufacturers are also relying more and more on gray market Chinese citizens in Japan on technical intern visas but used as ordinary factory labor. Thus the total foreign percentage of the workforce is actually higher than reckoned by METI.

The METI report stressed the social issues, particularly for workers' children, that have arisen as a result of the 159,000 Brazilians (over half of all Brazilians in Japan) and 18,000 Peruvians concentrated in the four Central Japan prefectures centered on Nagoya.

The report noted that employers, local governments, and NPOs are becoming more engaged in the issue. Local government officials we've spoken with throughout the region have told us of their increasing efforts and resources to deal with these issues. (Nagoya: Tamiki Mizuno)

¶19. (SBU) KIAC Seeks Restoration of U.S. Routes and Increased Cargo Capacity

Kansai International Airport Co. (KIAC) President Atsushi Murayama announced in late April that the airport would seek to restore the U.S. routes it has recently lost and make a major capital investment in the KIX cargo zone in order to meet its revenue goal for 2007.

In 2006, KIAC turned a profit due to cost-cutting measures, but was unable to reach its target of 119,000 annual flights. Murayama blamed a decrease in large aircraft business due to higher fuel costs and the decision of several carriers to cease operating flights to the United States from the Kansai. KIAC's flight target is 129,000. Murayama has stated publicly that if the airport misses this target, he will step down from the helm. In 2007, KIAC will make a 65.5 billion yen (\$546 million) capital investment to expand the number of plane parking spots in KIX's air cargo zone. Officials were mum on their forecast of potential demand for increased cargo service at KIX, however.

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(Osaka-Kobe: Phil Cummings/Naomi Shibui)

¶20. (U) 787 Production Enters New Phase

Boeing's 787 Dreamliner project reached a significant milestone with the May 16 delivery of the final major structure for the first assembly of the aircraft in Everett, Washington. The integrated mid-body fuselage consists of a forward fuselage section made by Kawasaki Heavy Industries in Nagoya; the center wheel well and center wing tank, made by KHI and Fuji Heavy Industries in Nagoya; and center fuselage sections made by Alenia Aeronautica in Italy -- all of which were flown to Charleston, South Caroline, where they were joined by Global Aeronautica. The 84 ft. long, 19 ft. diameter fuselage was then flown to Everett, where it arrived one day after a pair of composite wings built by Mitsubishi Heavy Industries in Nagoya.

Final assembly of the first 787 is to begin shortly, with roll-out reportedly scheduled for early July and delivery to ANA of the first 787 for passenger use slated for May 2008. In recent days, top Boeing and ANA executives have repeatedly stressed to the media that the 787 remains on schedule.

The Boeing photo shows the 787 wings being unloaded May 15 in Everett. (Nagoya: Dan Rochman)

121. (U) New Train-Bus Hybrids for JR Hokkaido

Hokkaido's rural railroads have become increasingly unprofitable as their passenger levels fall because of population decline. Japan Railways Hokkaido (JR Hokkaido) has developed the world's first operational train-bus hybrid called the Dual Mode Vehicle (DMV) in an ambitious attempt to create a new cost-effective means of rural transportation. The DMV is generating a great deal of interest both inside and outside of Hokkaido. Whether it will be a commercial success, however, remains to be seen. For more information, see Sapporo 0024. (Sapporo: Ian Hillman/Yumi Baba)

122. (SBU) Toyota Hybrid and U.S. Sales Plans

On May 9, we toured the Toyota Motomachi automobile manufacturing plant near Nagoya with a group of Industrial College of the Armed Forces students. In operation since 1959, the plant produces 12,000 vehicles a month of eight models for the Japanese market on one production line. We were treated to a view of the famous welding robots performing their mechanical dance; 95 percent of all the body welds are automated, according to the plant representative.

Hybrid production is very much on Toyota's mind for the United States. A plant official said Toyota sold 240,000 hybrids in the United States in 2006. Toyota hopes hybrids will be 10 percent of their U.S. sales in the next few years. Although the official's remarks suggested the going might be getting tougher for hybrids. He noted that it is not clear that customers will continue to pay the premium for the more costly hybrid power train and that strong sales would most likely depend on gas prices.

Toyota has introduced hybrids in Japan, but they are not selling comparably as well as in the United States. Some 72,000 hybrid vehicles were sold in Japan in 2006. Toyota's representative noted that mini-cars in Japan compete with hybrids for sales as their fuel efficiency is just as good.

Toyota plans to increase the percentage of U.S. built vehicles in their sales in the United States. It used to be 65 percent, but has now slipped to 55 percent and Toyota would like to increase it back to 60-65 percent. The Toyota representative anticipates this will be achieved around 2010 when Toyota's new Texas plant is fully operating and the plant being built in Mississippi comes on line.

Toyota coincidentally released its year-end financial results on May 9, which reported record high revenues and profits. Globally, vehicle sales reached 8.52 million units, an increase of 550,000 units over the last fiscal year. For more information, click [here](#). (ECON: Josh Handler)

123. (SBU) Yamazaki Mazak Machine Tools: Export Controls and Japan's Demographic Crisis

A company spokesman for world leader in machine tools production Yamazaki Mazak Corp. told us that the company is concerned about unauthorized re-exports of its precision machine tools during a tour of a Mazak machine tool plant near Nagoya last week. Mazak is also working hard to invent new procedures and machines, including the award winning e-Bot Cell 720 shown below, to counter the shortages of skilled labor in the area.

Mazak's efforts give insights into how Japan's manufacturing sector is addressing Japan's demographic challenge. A cable on the visit is to follow shortly. (ECON: Josh Handler)

124. (U) U.S. and Japanese IT Firms Consortium to sell Linux Systems in Japan

In response to recently adopted GOJ government procurement guidelines which give preference to open source systems, a group of major U.S. and Japanese IT firms have formed a consortium to produce servers and software running an identical form of Linux operating system. The consortium includes Oracle, IBM, Hewlett-Packard, Dell, NEC, Hitachi, and NTT Data. Oracle will manage the maintenance of the operating system thus lowering costs for those are considering switching to Linux.

The Communications Ministry is concerned about over-reliance on Microsoft Windows systems and claims that the fact that the Windows' source code is not open might limit freedom in developing new systems. According to Nikkei, currently, 78 percent of the servers in Japan run Microsoft Windows, compared to 14 percent that run Linux. (ECON: Marilyn Ereshefsky)

125. (U) Japanese MLB Update

Right-handed starter Daisuke Matsuzaka pitched the first complete game for the Boston Red Sox all season, a dominating 7-1 six-hitter against the Detroit Tigers on May 15. Left-handed reliever Hideki Okajima extended his streak of scoreless appearances to 17 games, as his earned run average plunged to 0.48.

Left-handed starter, Kei Igawa, demoted by the New York Yankees last week, showed up on the roster of the Tampa Yankees of the Florida State League, but has so far not made an appearance. We have no indication if NHK will begin to broadcast his Single A league games in Japan. (ECON: Nicholas Hill)

SCHIEFFER